

**SOUTH CAROLINA SCHOOL FOR
THE DEAF AND THE BLIND
SPARTANBURG, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

March 20, 2020

Dr. Page B. McCraw, President
and
Members of the Board
South Carolina School for the Deaf and the Blind
Spartanburg, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina School for the Deaf and the Blind (the School), on the systems, processes and behaviors related to financial activity of the School for the fiscal year ended June 30, 2019. The School's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the School. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the School has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the governing body and management of the South Carolina School for the Deaf and the Blind and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina School for the Deaf and the Blind (H75)****Cash Receipts/Revenues**

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations of the following: General Fund: Non-Cash Non-Programmatic Asset Donations General Ledger (G/L Account 4310081000), Earmarked Fund: Sale of Hearing Outreach Ed Services (G/L Account 4480020015), and Federal Fund: Federal Operating Grants Restricted (G/L Account 4280020000).
2. Haphazardly select ten cash receipts transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations of the following: General Fund: Utilities (515- Accounts) and Federal Fund: Contractual Services (502- Accounts).
4. Haphazardly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by School procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by School procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the School.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select five purchasing card transactions and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with School policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Findings

The School expensed the construction and installation of handrails for a new walkway which cost \$5,481. As the asset was over \$2,500 and under \$100,000, the handrails should have been capitalized as low value and tracked in the South Carolina Enterprise Information System (SCEIS).

For four out of five of the purchasing card statements inspected, the monthly purchase statement was not signed by the cardholder and/or supervisor.

Management's Response

The SC School for the Deaf and the Blind (SCSDB) acknowledges these findings and will continue to work to ensure capitalization of assets are correctly identified. Additionally, SCSDB will meet with appropriate finance staff to ensure monthly signatures are obtained for purchasing card statements.

Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select seven employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the School's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
9. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the School's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

Finding

One employee's termination was not entered in SCEIS in a timely manner and as a result the employee was overpaid in her last pay period worked. An adjustment was then made by SCEIS to correct the overpayment; we were unable to recalculate the amount of the adjustment, and the School could not provide us with support for the adjustment. School personnel stated they have reached out to SCEIS for an explanation.

Management's Response

SCSDB acknowledges this finding and will meet with staff to review the importance of documentation to support payroll corrections.

Journal Entries and Transfers

10. Haphazardly select six journal entries and two transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of this procedure.

Reporting Packages

11. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

12. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting – Cash and Investments report and/or School prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting – Inventory report. In addition, determine if the School notified the Office of the State Auditor prior to a physical count of inventory and if the School's reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or School prepared records.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or School prepared records.

Reporting Packages (Continued)

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting – Operating Lease Expense with Vendor report and/or School prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following: (1) Ten haphazardly selected vendor payments and (2) The current expense and future minimum payments for three haphazardly selected operating leases. In addition, confirm that the School submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or School prepared records.

Findings

Master Reporting Checklist - The School did not submit additional documentation as required by answering yes to question #53 of the Master Reporting Checklist. The question asked whether the School used any non-State entities to process transactions. Because the School answered yes, it should have sent an explanatory letter or other attachment to the CG's Office.

Cash and Investments Reporting Package - The School reported incorrect amounts for the Recorded Balance and Bank Statement Balance on the Deposits with Banks Reporting Form (Form 3.01.2). The Recorded Balance was overstated by \$72,884 and the Bank Statement Balance was understated by \$73,045. In addition, the School did not submit additional documentation required by the Column Evaluation on Form 3.01.2. A copy of the State Treasurer's Office (STO) bank statement and a written explanation of why the account is not recorded in the SCEIS general ledger should have been submitted along with the reporting package.

Inventory Reporting Package - The School was unable to provide supporting documentation of physical inventory taken prior to year-end to support amounts reported on the package.

In addition, the School did not notify the Office of the State Auditor of their fiscal year 2019 physical inventory counts in accordance with the CG's Reporting Policies and Procedures Manual.

Operating Leases Reporting Package - The School reported incorrect amounts for current expense and future minimum lease payments on the Operating Leases Future Minimum Payment Schedule (the Schedule). The current expense for one lease was overstated by \$8,179 due to the inclusion of payments made to a different leased property. Also, the future minimum lease payments for one lease were understated by \$25,559 and overstated by \$6,992 for another lease. In addition, certain leases were mistakenly included on the Schedule, resulting in current expense and future minimum lease payments being overstated by \$4,584.

Two payments totaling \$1,154 were misclassified on the reporting package; these expenses were for the payment of property taxes and should have been classified as current expenses with their respective leases.

Three payments totaling \$3,893 were miscoded in the School's general ledger: \$155 was charged to G/L Account 5040060000 (Rent Non State Owned Real Property) instead of to a travel account (505-), \$2,548 was charged to G/L Account 5040057000 (Contingent Rental Payments) instead of to an appropriate contractual services account (502-), and \$1,190 charged to G/L Accounts 5040057000 (Contingent Rental Payments) and 5040027000 (Rent Copying Equipment) instead of an appropriate contractual services account (502-).

Reporting Packages (Continued)

Management's Response

SCSDB acknowledges these findings and will work with staff to ensure accuracy and appropriate documentation for reporting packages.

Composite Reservoir Account

13. Obtain from the South Carolina Office of the State Auditor a listing of the School composite reservoir accounts and confirm with the School management that the listing is complete.
14. Confirm that the School submitted the required Bank Account Transparency and Accountability Report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.83 of the fiscal year 2019 Appropriation Act.
15. Obtain fiscal year monthly reconciliations for the composite reservoir account and for two of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
16. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations, that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
17. Haphazardly select and inspect five composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations, were bona fide disbursements of the School, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of these procedures.

Assets and Personal Property

18. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
19. Haphazardly select three capital asset retirements and inspect supporting documentation and the SCEIS Asset History Sheet to determine that each asset was approved for removal, and that the asset was properly removed from the School's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
20. Confirm that an inventory of School property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Law 10-1-140.

Assets and Personal Property (Continued)

Findings

The School has taken steps to correct its accounting over capital assets as a result of findings reported in a previous State Auditor's Report; however, in our current year inspection of acquisitions we observed the following:

- Two selected capital asset acquisitions were capitalized for the incorrect amount. One asset's cost was overstated by \$1,481 due to the inclusion of supplies and one asset's cost was understated by \$781 due to the exclusion of sales tax.
- The School was unable to provide adequate documentation to support the \$298,137 capitalized cost of a playground. The playground was donated in November 2017 but was capitalized and added to SCEIS in October 2018. School personnel stated the asset was added when the School took corrective action in response to a prior year finding.
- The School capitalized a building in June 2019; the building was completed in 2004. This was another asset added as a result of a prior year finding.
- As a result of the School not timely capitalizing the building and playground as noted above, the accumulated depreciation for these assets in SCEIS is understated.

Management's Response

SCSDB acknowledges these findings and will continue to work to ensure capitalization encompasses all components of any asset to ensure accuracy with capitalization. Additionally, although SCSDB has made great progress with asset management in recent years, SCSDB acknowledges that continued corrections in the area of assets also continues to lead to findings for past corrections. These matters will be reviewed with staff to communicate the importance of increased accuracy with asset capitalization and asset management.

Governance, Risk and Compliance (GRC) SCEIS Module

21. Select two controls identified through the SCEIS GRC system that were in place during fiscal year 2019 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of this procedure.

The South Carolina School for the Deaf and the Blind Foundation

22. Obtain and inspect applicable contractual agreements to determine if individuals employed by both the School and the Foundation are being compensated in accordance with the agreement.

We found no exceptions as a result of this procedure.

Fiscal Monitoring of Schools

23. Inquire of management regarding any investigation, audit or review associated with the School which was ongoing or completed during the fiscal year. Inspect reports of any completed investigation, audit or review associated with the School.
24. Compare current year school district trial balance account balances, excluding revenues and expenditures, to those of the prior year. Obtain and document an understanding of variations over \$500,000 and 10%.
25. Inspect budget allocations for the current year and the prior year to determine consistent budgeting to support the School.

Fiscal Monitoring of Schools (Continued)

26. Compare total revenues to total expenditures for the current fiscal year and each of the previous four fiscal years and obtain an explanation from management for any year in which the School's expenditures exceeded revenues.
27. Through inquiry with management, determine and document the School's reserves/funding to maintain school operations if an emergency or budget shortfall should occur.

We found no exceptions as a result of these procedures.

Appropriation Act / School-Specific Provisos

28. Confirm compliance with selected agreed-upon School-specific provisos 6.4, 6.8, 6.9, 6.10, and 6.11 of the FY19 Appropriation Act by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of this procedure.

Status of Prior Findings

29. Through inquiry and inspection, determine if the School has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the School took appropriate corrective action on all prior year findings except we identified a similar finding regarding asset capitalization. See finding at **Assets and Personal Property**.